

## **CHAPTER I: INTRODUCTION**

This chapter is the introduction of this research. This chapter includes background of research, questions and objectives of research. There is also an explanation of aiming of this research and outline of research.

### **1.1 Background of Research**

The purpose of banking is to provide a stable platform on which to perform financial transactions. Banking stimulates the growth of business by generating confidence and predictability in a currency, and that growth in turn increases the demand for banking services. BNI Syariah Banks provide payment services, such as checking and credit card accounts, for customers. They earn money by lending customer deposits in various ways, including installment loans, such as mortgages and lines of credit. Investment banks enable business expansion by providing the liquidity that companies need to start or grow. Banks provide financial products and services to their clients in exchange for earning interest and fees. Banking executives must possess knowledge of complex monetary instruments in order to make sound decisions based on capital adequacy, asset management and interest rate risks. A strong management control, leadership style and IAS can help a bank thrive while offering a variety of financial services.

The term "management control" means the use of a number of techniques in organizations to observe and evaluate employee performance against certain management targets. Therefore, conventional management control systems focus on getting better operational efficiency. But as operational efficiency is no longer adequate to create sustainable competitive advantages, management control systems must be expanded to managerial practices that cultivate employee cooperation and creativeness in the discovery and development of new business opportunities. This is especially the case in the high-tech industries that are at the faced with the challenges of globalisation and employee teams must combine efficient communication with creativity. "Project managers and product designers in software and other industries thus need to find ways to divide up products and tasks so that even teams of many of clever people can work and communicate efficiently as well as creatively" (Cusumano, 2007).

One of the most important issues in management is controlling. Control is one of the tasks of managers (Fayol, 2009). Management control system (MCS) is used as a tool for controlling in administration. Obviously managers need criteria to determine how well they do and to control their performance. In this case, measuring performance is an important concept in controlling. Therefore a system to provide information for execution is needed. MCS helps managers to find information and ensure that those performances and behaviors of employees are consistent with organization objectives. That is both financial and a non-financial measure of performance is necessary. Organizations may use a variety of methods for this purpose like: Balance Scorecard Framework. As a result of dynamism in environment, methods used to measure intangible resources need to be improved especially since assets value has shifted from tangible to intangible, like emergence of knowledge workers. As such, the control system in the knowledge economy has to shift accordingly.

To introduce this topic and understanding the importance of management control, it is known that in the present globalized world, organizations need to use management control that goes beyond the strategies that focus on acquisition of technology and logistics which are not sufficient to give the organization sustained long-term competitive edge over its competitors. Management Control Systems (MCS) as defined by Anthony (cited by Langfield-Smith, 2007) is the process by which managers ensure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives. MCS is a system used in an organization which collects and uses information to evaluate the performance of the organizational resources that will eventually influence the behaviour of the organization to implement organizational strategies.

Leadership is a special type of influential activity. It may be seen in effect in all kinds of social situations, and it is especially apparent. Leadership represents a combination of behaviors exhibited by one who occupies an elected, appointed, or designated position of influence in a social system. Leadership behaviour is therefore officially sanctioned either formally or informally and the leader is looked to for guidance and direction by those who recognize in his or her power.

Maxwell (2012) says that 21<sup>st</sup> century leader is one who empowers others to be leaders. Managers and supervisors must know the techniques, challenges and benefits of facilitative leadership. According to him, “the old world was composed of bosses who told you what to do and think and made all the decisions. In the new world, no manager can know everything or make every decision now to be successful, a manager has to work in partnership and in collaboration with everyone, in order to tap everyone’s ideas and intelligence. Managers now are coach, counselors and team builders. Leadership is influential processes which distinguish a leader by their actions, and also encourage a group of people to move towards a common or shared goal. A leader is an individual, while leadership is the function that the individual performs. Besides, an individual within an organization who has authority is often referred to as a leader, regardless of how they act in their job.

According to Obisi (2006), organizations need qualified leaders; leaders who evolve to perform consistently within organizations must possess four key abilities to effect change. The important characteristics include applying leadership styles appropriately, communicating effectively, managing performance regularly, and developing associates responsibilities. These keys, when applied skillfully, provide managers opportunities to unlock excellence in leadership. According to Hersey (2011), "Management of Organizational Behavior", focuses on what is known and accepted about leadership management and motivating people. Hersey tackles several of the myths that permeate many discussions about improving employee motivation and why it is important for management to make real change by understanding human behavior. He demonstrates through research done over the years which kind of management involvement produces results in employee performance and how the world of work is moving towards the knowledge age. Some people believe with the technology that is available today, management and leaders may no longer be needed.

*Organizational change theory has long been central in studying how organizations transform themselves through time (Colville, Dalton & Tomkins, 1993; Greiner, 1972; Lewin, 1951; Minzberg & Westley, 1992). There is a growing interest in the role of management control systems in planned*

*organizational change. (Hofer & Schendel, 1978; Kotter & Heskett, 1992; Porras & Robertson, 1992; Burns, 2000; Burns & Vaivio, 2001).*

As information and communications technologies cover a wide range and include all the areas in which a bank acts, this research work has focused on a specific part of them, the accounting information systems (AIS) to show that computerized accounting tools are directly related to the economic and financial results and productivity in banks. Accounting Information Systems (AIS) are a tool which, when incorporated into the field of Information and Technology systems (IT), were designed to help in the management and control of topics related to banks or firms' economic-financial area. But the stunning advance in technology has opened up the possibility of generating and using accounting information from a strategic viewpoint. Since this is important for central banks, it is more important even for medium-sized and small ones which need this information to deal with a higher degree of uncertainty in the competitive market (El Louadi, 2008). Thus, they need to improve their systems and data processing capacity to match their information needs (Van de Ven and Drazin, 2005). Investing in staff training, improving the quality of products and internal processes and increasing AIS investment will be the leverage for achieving a stronger, more flexible corporate culture to face continual changes in the environment. Innovation is the incentive with which a virtuous circle will be put in place, leading to better bank performance and a reduction in the financial and organizational obstacles, while making it possible to access capital markets.

In order to deploy these strategies, Indonesian banks have needed to invest in technology to promote information and communication in different areas of the organization such as production, design, innovation, marketing, commercial management or after sales service, because all of them are very directly identified with gaining or losing market share. On the other hand, to what extent this investment in specific technology for the economic-financial area is related to performance and productivity indicators is a question as yet insufficiently analyzed? Studies have been made by many authors regarding the potential IT contribution, in general, to increasing Banks productivity. The latter, even in moments of crisis such as the present time, opt for the need to continue investing

in this type of technology to achieve continuous company improvement (Cramm, 2008).

AIS are systems used to record the financial transactions of a business or organization. This system combines the methodologies, controls and accounting techniques with the technology of the IT industry: user interface, computers and sophisticated software. The software used to track transactions provides internal reporting data, external reporting data, financial statements, and trend analysis capabilities.

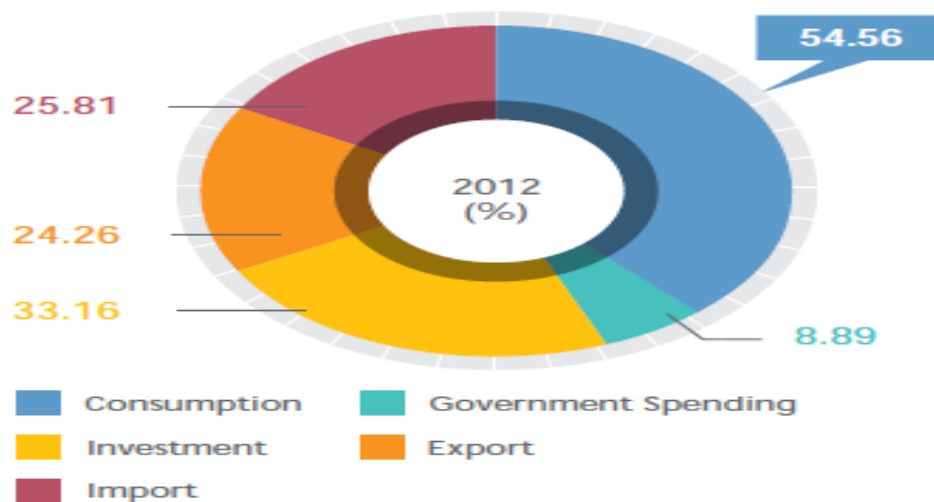
This research will examine the impact of management control, leadership style and accounting information system on performance of BNI Syariah Bank of Indonesia. Banking institutions are the earlier financial institutions that were established in Indonesia either by Indonesian government or foreign colonized countries. However, Indonesia had an independent banking system just in 1970 when the revolution government nationalized all foreign banks to create a complete banking system that was a public banking sector and fully owned by the Indonesian government. The Indonesian banking system continued to be controlled by the public sector until 1993 when a new law allowed the establishment of private banks (Central Bank of Indonesia 2006). Figure 1-1 shows the structure of the Indonesian BNI Syariah Banks

On the other hand, BRI successfully recording quality growth and laying a strong foundation for sustainable growth by employing Good Corporate Governance, reliable IT infrastructure, as well as, by developing human resources' competency and integrity. Such endeavors are aimed to increase customers' loyalty and to give optimal returns for stakeholders.

BRI is bolstering its position as the biggest BNI Syariah Bank with diverse range of accessible, comprehensive, and quality products and services to cater the needs of the people, wherever they are. The practice of Good Corporate Governance has contributed to the development of high quality products and services. This achievement is supported by a widespread business network encompassing 9,052 outlets (Head Offices, Regional Offices, Branches, Sub-

Branches, BRI Units, Cash Offices, and TerasBRI) and 59,241 e-channel networks (ATM, KiosK, CDM, EDC, and e-BUZZ).

Amid increasing competitions in Indonesia's banking industry, BRI retains its strong capacities, both in funds raising and loans disbursement. Those accomplishments are rooted from the implementation of Good Corporate Governance altogether with continuous innovations in products and services, enabling the Bank to maintain and to develop its loyal customer base.



**Figure 1 GDP Composition Based on Annual Report**

In the 7th year, BRI Syariah has recorded many quite encouraging achievements. This is inseparable from sustainable cooperation and full support with the parent entity, PT Bank Rakyat Indonesia (BRI). The network has been owned by BRI makes customers can carry out payment transaction easily and affordably. By the end of 2015, BRI Syariah has 675 sharia service offices which are spreading throughout Indonesia. The availability of Sharia Service Office (KLS) in BRI is one of the supporting aspects to the achievement of qualified business growth.

This study provides insights into performance and human resources development such as management and leadership in Indonesian banks and BRI Syariah Indonesia, whether the control management and leadership style function are perceived to be effective, thereby enhancing practitioners 'understanding of the merits and limitations of bank performance in Indonesia and BRI Syariah. By conducting research on bank performance, management control, leadership and

accounting information system in Indonesia and Indonesia, this study will enhance the understanding of bank work especially BNI Syariah Bank in Indonesia where the environment Indonesian BNI Syariah Banks works.

## **1.2 Questions of Research**

Based on the variables of this research, the questions of this research are as following:

1. What is the impact of management control on BNI Syariah Bank Indonesia and BRI Syariah performance?
2. What is the leadership style impact BNI Syariah Bank Indonesia and BRI Syariah's performance?
3. What is the impact of accounting information system on BNI Syariah Bank Indonesia and BRI Syariah performance?
4. What are the similarities and differences of management control, leadership style and AIS in BNI Syariah Bank Indonesia and BRI Syariah?

These are the main questions included in these research and during this research a clear answer about BNI Syariah Bank Indonesia and BRI Syariah performance will be included and discussed.

## **1.3 Objectives of Research**

Management control, leadership style and accounting information system maybe the main factors that can effect performance in any bank or organization. The importance of this research depend on this fact. Here we have the main objective of this research as following:

1. Describing the impact of management control on BNI Syariah Bank Indonesia and BRI Syariah performance.
2. Describing the impact of leadership style on BNI Syariah Bank Indonesia and BRI Syariah performance.
3. Describing the impact of accounting information system of BNI Syariah Bank Indonesia and BRI Syariah on its performance.

4. Determining the similarities and differences of management control, leadership style and AIS in BNI Syariah Bank Indonesia and BRI Syariah.

#### **1.4 Aim of Research**

This research included three important factors of human resource and information technology aspects. Management control became very important issue for human resources and leadership as well. Accounting information system is the main skeleton for banking and accounting. This research gives us comprehensive understanding of the situation of management control, leadership style, accounting information system and performance in BNI Syariah Bank Indonesia and BRI Syariah in Indonesia. This research also describes the relationship between all variables with each other and their effect on performance in BNI Syariah Bank Indonesia and BRI Syariah.

This research gives us an illustration and description of Indonesian BNI Syariah Bank and BRI Syariah performance, management control, leadership styles and accounting information system beside the impact of these factors in the performance of bank and BRI Syariah. This research describes different style of banking and information system used in Indonesia and introduce ideas about banking and money transaction in the country.

#### **1.5 Outline of Chapters**

This research includes five chapters. The chapters will be designed as following:

**Chapter I:** outlines background of this study and determines the benefits of this research. This chapter also includes the questions and objectives of study as well. There are explanations about the importance of study and benefits that will be resulted of this study and desired output and outcomes.

**Chapter II:** reviews the theoretical and previous study management control, leadership style, accounting information system and performance. This chapter includes four parts according to the nature of study which are historical review, theories of variables, theoretical studies about every variable, pervious study



connected with four variables and in the end of this chapter includes the conceptual framework and hypothesis of the study.

**Chapter III:** this chapter is methodology of research. It includes type of research, sample and population who participated in this study. It also includes data analysis techniques which are descriptive statistic by using SPSS and Excel and descriptive analysis in four different parts.

**Chapter IV:** includes the findings of study which are four parts. First part explains impact of management control on BNI Syariah Bank performance of Indonesia and BRI Syariah. Second part explains impact of leadership style on BNI Syariah Bank Indonesia and BRI Syariah. Third part includes how accounting information system affecting performance of BNI Syariah Bank Indonesia and BRI Syariah. Forth part discusses the similarities and differences between both banks. All these four parts will be discussed one by one as well.

**Chapter V:** this is the last chapter of this study. It includes the conclusion, recommendations and limitations of doing this research.

***References and Appendixes***